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STATE FOR WHA/BSC, INL/LP (JIM HIDES)  
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STATE PASS TO USAID FOR LAC/AA  
STATE PASS TO USTR FOR LYANG  
NSC FOR SUE CRONIN  
TREASURY FOR OSIA MAUREEN WAFER  
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR  
COMMERCE FOR ITA SARAH COOK  
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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE MARCH 10 -  
23, 2007

Classified By: DCM MICHAEL J. FITZPATRICK; Reasons 1.4(b),(d)

11. (U) SUMMARY:

- Colorado Internal Battle Boils Over
- Supreme Court Justices Violate Ethics
- FARC linked to Cubas Case
- SENAD Burns 256 Kilos of Cocaine
- Treasury Notes Auctioned
- Soto Gets Fourth Star

COLORADO INTERNAL BATTLE BOILS OVER

12. (C) Juan Facetti, Senior Advisor to VP Castiglioni, told PolOff March 21 that President Duarte Frutos lashed out at the attendees of a Colorado Party Precinct meeting March 19 for their apparent overwhelming support for VP Castiglioni. Duarte then said that he wants Education Minister Blanca Ovelar to be his successor because she is the most in line with his ideology. Facetti noted that Ovelar is a socialist and is more likely to fall in line with Hugo Chavez and Evo Morales. Facetti also said since Duarte controls the Colorado Party Elections Tribunal it would be easy for Duarte supporters to cheat. According to Facetti, Castiglioni will announce his candidacy after Easter. Septel to follow.

SUPREME COURT JUSTICES VIOLATE ETHICS

13. (U) The Ethics Tribunal ruled March 21 that Justices Jos Ral Torres Kirmser, Wildo Rienzi Galeano and Vctor Manuel Nez Rodriguez, violated the Code of Ethics for attending the December 6, 2006 birthday party for Senator Juan Carlos Galaverna. The justices violated articles 10, 12, 14, 19 and 22, which prohibit judges and other magistrates from participating in political activities and oblige them to maintain the public perception of judicial independence. The Tribunal imposed the most lenient penalty, recommending the three justices refrain from participating in future political-related activities. The Director of the Judicial Ethics Office, Esteban Kriskovich, and the Tribunal were

under constant pressure from Justice Torres Kirmser to rule that there was no ethics violation. The lenient penalty is most likely due to political pressure and a compromise ruling. (COMMENT: Although, the penalty was lenient, it is still a significant ruling. Corruption in and political influence over the judiciary continues to be a serious problem. USAID is working with the judiciary to deal with corruption through the MCA Threshold Program. Component 2 (Increase the Capability of the Judiciary Disciplinary System) will help establish disciplinary measures to make those involved in corruption accountable for their actions, reducing impunity and providing an additional deterrent to future corruption. END COMMENT).

#### FARC LINKED TO CUBAS CASE

14. (U) Judge Pedro Mayor Martinez formally requested all available information relating to the possible extradition of Ruben Reyes, secretary of the FARC, from Colombia (through Interpol) March 20. Reyes has been linked to messages exchanged between the Chancellor of the FARC Rodrigo Granda and former Free Fatherland Party Secretary General Osmar Martinez regarding the planning of the kidnapping of Cecilia Cubas, daughter of former President Raul Cubas Grau.

#### SENAD BURNS 256 KILOS OF COCAINE

15. (U) The National Anti-Narcotics Secretariat (SENAD) incinerated 256 kilos of cocaine March 20. The cocaine was seized (largest in the country) in December 2005 in the Manora neighborhood in Asuncion. Seven Ecuadorians and one Spaniard were arrested during the seizure. The cocaine was from Colombia and destined for Portugal and Spain.

#### TREASURY NOTES AUCTIONED

16. (U) The Paraguayan Treasury auctioned USD 25 million worth of Guarani and Dollar treasury notes March 15. The 3-year treasury notes have a Guarani cut-off rate of 14.60 percent and a Dollar cut-off rate of 8.40 percent. The bid-to-cover ratio was 2 to 1. Post's Office of Technical Assistance (OTA) Resident Advisor, stated the auction was a big success, albeit for a small amount issued. OTA's advisor also noted this was the first quarterly auction in 2007, with further issuances in June, September and December.

#### SOTO GETS HIS FOURTH STAR

17. (C) General Bernardino Soto Estigarribia was awarded his 4th star by President Nicanor Duarte Frutos March 16 during a ceremony at the Francisco Solano Lopez Military Academy. The order was read and no speeches were given. (NOTE: Soto enjoys the confidence of President Duarte and the Congress, obtaining his 4th star in less than 3 months. Soto received his third star in December 2006. Former commander Genral Jose Kanazawa took four tries to get his 4th star. END NOTE).

#### CASON